

MEMO FOR COUNTERPARTIES, supplying goods/rendering services to NLMK group

This memo will help you to understand what are the obligatory control procedures at NLMK group before contract making and how to pass these procedures successfully.

Why do these procedures exist? What for are there so many procedures?

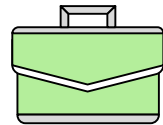
Interaction with external counterparties bears many risks (credit risks, risks of rendering services of poor quality, risks of delivery failures). Qualification is a control procedure aimed at mitigating these risks.

It is required to fulfil the following control procedures to make a contract with third parties:



QUALIFICATION

A counterparty shall be qualified for purchase of goods/services



Procurement procedures

After passing qualification for goods/services purchase, bidding procedure is required



COUNTERPARTY QUALIFICATION

? #1 What for is the qualification needed?

Counterparts qualification is performed in order to minimize risks of non-fulfillment of contract by the counterparty; creating and maintaining a competitive environment. The counterparty who has passed the check for compliance with the established requirements in the field of economic safety, labour protection (when rendering services at Group sites), technical appraisal is considered qualified and can be admitted to procurement procedures.



? Where is the qualification performed? #2

#2



In all Russian companies of NLMK Group.

? #3 What are possible qualification scenarios?

- **Qualification for low-value purchases** (within the transaction limit for one counterparty established for NLMK Group companies). Limits for low-value purchases are given at page 3. Is provided for:
 - Counterparty's self-filling of the registration form, selecting categories, creation of a personal account in the information system
 - the possibility to expand the list of supplied services/goods and materials through a personal account in the future
- **Full qualification procedure** (if the estimated volume of supplies is higher than the limit established for NLMK Group companies). is provided for:
 - Counterparty's self-filling of the registration form, selecting categories, creation of a personal account in the information system
 - filling out a general qualification questionnaire
 - filling out category qualification questionnaires
 - the possibility to be involved in bidding procedures
- **Qualification on special routes** (applicable for subcontractors and individuals) is provided for:
 - Counterparty's self-filling of the registration form, selecting categories, creation of a personal account in the information system
 - general contractor's request to the customer's representative for qualification
 - Individual's request to the support service to launch a special route by the Customer's representative

? #4 What do we try to evaluate at each stage?



1. Affiliation of the new counterparty with companies from the "black list" (whose qualifications were cancelled or suspended by the decision of the Settlement Commission due to severe violations (see page 6 **Disqualification procedure**).
2. Compliance of the applicant with "hygienic requirements" in terms of economic security and compliance with the requirements of Rostekhnadzor – Russian Federal Service for Environmental, Technological and Nuclear Supervision (only for contractors working on sites of NLMK Group companies).
3. The scale and experience of the applicant, the availability and qualifications of the counterparty's personnel, its ability to qualitatively fulfil contractual obligations (work/services, supply goods and materials of quality).

COUNTERPARTY QUALIFICATION



1 STAGE

SELF-REGISTRATION OF A COUNTERPARTY AT THE WEBSITE



2 STAGE

GENERAL QUALIFICATION



3 STAGE

CATEGORY QUALIFICATION



COUNTERPARTY:

- Enters NLMK website;
- fills out a questionnaire and registers as a service provider or goods supplier.

After that, the counterparty gets access to a **Personal Account** in SAP SRM, through which a link to **stage 2** is sent.

If stage 2 qualification is passed the counterparty receives a notification on stage 1 completion and a link to **stage 3**.

Limitations of low-value purchase

- **RUB 10 million (Net of VAT)** for NLMK suppliers
- **RUB 5 million (Net of VAT)** for suppliers of SGOK, Altai-koks, Viz-Steel., NLMK Ural, NLMK Kaluga;
- **RUB 2 million (Net of VAT)** for suppliers of Stagdok and Dolomit
- **RUB 1 million (Net of VAT)** for suppliers of other subsidiaries and affiliates in Russia.



Documents needed

Registration forms:

- [For non-RF residents.](#)
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Where to ask for help?

Technical support:

For suppliers:

+74742-444-100, srm@nlmk.com

[Feedback form -](#)

<https://nlmk.com/ru/suppliers/frequently-asked-questions/>

COUNTERPARTY QUALIFICATION



1 STAGE

SELF-REGISTRATION OF A COUNTERPARTY IN THE SITE



2 STAGE

GENERAL QUALIFICATION



3 STAGE

CATEGORY QUALIFICATION



The stage **starts by filling a general qualification form by the supplier**. The general qualification form has questions to check for the following criteria:

- Corporate security
- Occupational Health and Safety (OHS) *

*OHS is automatically included into the check route at SRM system level when a counterpart selects outsource categories, as well as categories purchased by the following functional areas: Repairs & Maintenance, Investments, Logistics, APCS, OHS.



In case of successful completion of this stage, the counterpart receives a notification by e-mail and a new task appears in the personal account - a category questionnaire.



In case of non-compliance with NLMK's requirements, the counterpart receives a notification about the failure to pass the qualification procedure, indicating the reason for the rejection.



Documents needed

- [Manuals](#)



Where to ask for help?

- [Feedback form at official site](#)

COUNTERPARTY QUALIFICATION



1 STAGE

SELF-REGISTRATION OF A COUNTERPARTY IN THE SITE



2 STAGE

GENERAL QUALIFICATION



3 STAGE

CATEGORY QUALIFICATION



This stage **starts** after passing general qualification **by sending category qualification template** (analogue to general qualification template).

Category manager from NLMK Group checks the category qualification questionnaire and asks for clarification, if necessary. The system calculates and assigns a score for the questionnaire, if the score evaluation is applicable. The decision to include a counterparty in the panel is made at the level of functional area's Head.

Based on the results of the check, the counterparty is automatically notified if it is included into the supplier/contractor panel. Panel acceptance guarantees that the counterparty will be invited to participate in the procurement procedures.



Regulatory documents

- [documents, located at official site.](#)



Where to ask for help?

- [Feedback form at official site](#)

COUNTERPARTY QUALIFICATION

Criteria of a "good" counterparty*

- 1 A company was founded more than 2 years ago
- 2 Headcount more than 6 people
- 3 Positive revenue

Criteria of a "bad" counterparty*

- 1 Being present at the market of goods/services supplied for less than 2 years
- 2 Not registered in USRLE / registered in an apartment.
- 3 Confirmed affiliation with companies whose qualifications have been suspended or cancelled at the moment of the check
- 4 Losses for more than 2 years

*This list is not exhaustive. The full list of evaluated parameters is given in the next slides.

Disqualification procedure



Counterparty's qualification may be **suspended or cancelled by a decision of NLMK Group Settlement Commission (SC)** - a collegial body created in order to solve any controversial situations related to the decisions on further counterparty qualification. There may be the following reasons for that: breach of contractual obligations, legislation in force, cardinal safety rules of NLMK Group, etc. In order to be presented to SC the request statement is submitted. It may be initiated by a functional area, representing one of the functions in charge, or being a customer of goods/services.



Settlement Commission defines the deadline for eliminating the circumstances leading to the **suspension or restriction of qualification** of a counterparty. The information is communicated to a counterparty. If the contractor does not correct those circumstances within the given time period, the Settlement Commission shall make a decision to **cancel** its qualification.

Qualification cancellation period – up to 36 months. The decision on setting a specific time period for disqualification shall be taken by the Settlement Commission. After the given time period a counterparty may repeat the procedure. Person in charge of qualification has a right to send a request to the Settlement commission to finish disqualification earlier.

Security CRITERIA

Notifications on bankruptcy, information on bankruptcy procedure in process, tax debt

Critical financial risk index (SPARK)

Critical due diligence index (SPARK)

Not registered in USRLE

Decisions on liquidation, reorganization of a counterparty

Supplier's registration in an apartment

Enforcement proceedings in process, arrest of property

Negative net equity

Non compliance to the minimum requirements on fixed assets or equity for the last reporting period

Company's term of operation is less than 2 years

The mandatory documents are not attached to the questionnaire

Non compliance to the minimum requirements on the company's headcount

Areas to be checked include: labour protection, operational health and safety and profession instructions; medical examinations; OHS responsibility and training; fire safety responsibility and training; availability of PPEs; industrial safety certification; special evaluation of labour conditions; permits and training for works at heights; permits and trainings on electrical safety; responsibility and training on RTS; regulations on labour safety management system; Certification in terms of environmental protection.

List of criteria:

Availability of required licenses and certificates

Availability of the occupational health and industrial safety management system (OHS MS and ISMS)

Information about the availability of civil liability insurance in case of planning to use HPF at NLMK Group facilities

Information about OHS responsible officials of the company

Information about training and certification of managers and specialists on the industrial H&S matters

Information about works with the use of lifting devices*

Information on performance of works at gas facilities*

Information about performing works at the facilities under overpressure*

Information about road traffic safety of vehicles owned or leased by the company

Information about training of managers, specialists and BCs of the company on the labor protection

Information on performance of works at the electric power facilities*

Information about the availability of overalls, safety shoes, and other personal protective equipment for the company's employees

Data on the preliminary and periodic medical examinations of employees

Information about industrial accidents in the company for the last 3 years

* Applicable to the contractors rendering services on NLMK Group companies' sites

Technical CRITERIA

The counterparty is being checked for technical criteria at the stage of category qualification.

Category questionnaires are specific for each functional area. They contain questions to confirm the counterparty's experience in the market for the specified category; availability of test protocols, information on laboratory registration, etc. depending on product mix supplied.

When checking goods suppliers manufacturers of affiliated manufacturers' representatives are preferred.

If a supplier is not a manufacturer, the valued added by an agent in the supply chain is analysed compared to the direct communication with a manufacturer.

Availability of dealers' certificates in force is obligatory **for dealers**.

For the provision of **subcontracted operations or other** the scale and experience with certain operations/services, confirmed by the contracts are analysed as well as technical resources availability and qualification of personnel having experience in rendering services of specified category.